

Message Text

CONFIDENTIAL

PAGE 01 STATE 047882

12/71

ORIGIN SS-30

INFO OCT-01 ISO-00 /031 R

66624

DRAFTED BY:AID-ASIA/DP:ASHAKOW:EA/IMS:TJCHEAVNER

APPROVED BY:EA - ROBERT S. INGERSOLL

AID-AA/ASIA - MR. MACDONALD

AID/PPC - MR. GRIFFEL

NSC - MR. BUSHNELL (INFO)

S/S - DMILLER

----- 047559

P 090010Z MAR 74

FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA PRIORITY

C O N F I D E N T I A L STATE 047882

EXDIS

C O R R E C T E D COPY (CORRECTED WORD IN PARA 5 LINE 6)

E.O. 11652: GDS

TAGS: EAID, ID

SUBJ: U.S. AID TO INDONESIA

REF : JAKARTA 2885.

1. APPRECIATE THE DANGERS YOU OUTLINE REFTTEL, AND YOU MAY BE ASSURED WE WILL DO ALL WE CAN TO AVOID GIVING GOI IMPRESSION OF DIMINISHING U.S. SUPPORT. TO MAINTAIN GOI CONFIDENCE WE WILL NEED CONTINUING CANDID DIALOGUE SUCH AS YOU OUTLINE, AND YOUR APPROACH FULLY APPROVED HERE. YOU SHOULD, HOWEVER, ADJUST YOUR COMMENTS ON ECONOMIC ASSISTANCE TO FOLLOWING, WHICH IS RESULT CAREFUL CONSIDERATION HERE OF OVERALL INDONESIAN PICTURE IN CONTEXT WORLDWIDE REQUIREMENTS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 047882

2. DESPITE ADMINISTRATION'S STRONG DESIRE TO FULFILL IGGI

PLEDGE MADE LAST DECEMBER, IT IS NOW APPARENT THAT CONGRESSIONAL ATTITUDES TOWARD THE AID PROGRAM IN GENERAL AND OIL PRODUCING COUNTRIES IN PARTICULAR WILL NOT PERMIT US TO SEEK FUNDS I THE FY 75 AID CONGRESSIONAL PRESENTATION ADEQUATE TO MEET THE U.S. PLEDGE (233 MILLION DOLS OR ONE-THIRD OF TOTAL BILATERAL AID TO INDONESIA) FOR 1974/75. WE BELIEVE IT ESSENTIAL IN MINIMIZING ADVERSE POLITICAL REACTIONS THAT WE INITIATE DIALOGUE ON THIS TOPIC WITH GOI IN THE HOPE THAT WE CAN WORK OUT A MUTUALLY SATISFACTORY UNDERSTANDING. WHILE WE APPRECIATE GOI PREOCCUPIED WITH

POLITICAL PROBLEMS AND HAS NOT YET FACED UP TO FULL IMPLICATIONS NEW ECONOMIC FACTORS, OUR PLANS WILL HAVE TO BECOME PUBLIC AT TIME OF CONGRESSIONAL PRESENTATION. THUS WE HAVE RELATIVELY LITTLE TIME TO PREPARE GOI FOR CUTS IN U.S. AID. (FIRST PUBLIC SURFACING OF OUR AID LEVELS WILL BE IN EARLY APRIL WHEN CP PUBLISHED.) WE WOULD APPRECIATE YOUR REACTIONS TO BOTH TIMING AND CONTENT OF FOLLOWING LINE OF APPROACH TO GOI.

3. FIRST STEP IS TO EXPLORE WITH GOI CURRENT ECONOMIC SITUATION, SEEKING TO ELICIT GOI'S BEST ESTIMATE OF IMPACT RECENT PRICE CHANGES WILL HAVE ON INDONESIA'S ECONOMY OVER NEXT YEAR OR SO. IN THIS CONNECTION YOU COULD DRAW UPON USAID PAPER WHICH ESTIMATES VERY SUBSTANTIAL INCREASE IN FX RESERVES AND SIZABLE UNALLOCATED BUDGET SURPLUS, BUT HOPEFULLY YOU WILL BE ABLE TO ENCOURAGE GOI TO COME UP WITH ITS OWN CONCLUSIONS WHICH RECOGNIZE THAT ECONOMIC SITUATION VASTLY IMPROVED OVER ESTIMATES MADE AS RECENTLY AS THREE MONTHS AGO. BEST OUTCOME OBVIOUSLY WOULD BE FOR GOI TO REDUCE ITS AID REQUEST. (WE RECOGNIZE SOFTENING OF OIL PRICES COULD CHANGE PRESENT PICTURE, BUT SEEMS UNLIKELY BASIC THRUST OF FORECAST WILL BE ALTERED. WE ALSO MINDFUL INCREASES OF INDONESIAN OIL PRODUCTION ABOVE CURRENT LEVELS OF OUTPUT NOT ASSURED OVER LONG RUN, THOUGH FAILURE TO ACHIEVE INCREASES WOULD NOT AFFECT VASTLY IMPROVED PROSPECTS INDONESIAN FINANCIAL POSITION IN NEXT SEVERAL YEARS.)

4. IN YOUR DISCUSSION YOU SHOULD POINT OUT THAT IMPROVED
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 047882

POSITION OF OIL PRODUCING NATIONS IN GENERAL HAS BEEN SUBJECT OF EXTENSIVE PUBLIC DISCUSSION IN U.S. THIS IS PARTICULARLY REFLECTED IN US CONGRESS. WE HAVE ALREADY BEGUN TO RECEIVE CRITICISM FROM IMPORTANT MEMBERS OF CONGRESS FOR CONTINUING HIGH LEVELS OF AID TO INDONESIA AND WE ANTICIPATE THAT THIS PRESSURE WILL BE EVEN HEAVIER AS WE PRESENT OUR FY 75 PROGRAM IN THE NEXT SEVERAL MONTHS. WE EXPECT THE CONGRESS TO SCRUTINIZE THE INDONESIAN AID

REQUEST AND PROGRAM WITH GREAT CARE THIS YEAR AND ANTICIPATE THAT THERE WILL BE SHARP EFFORTS MADE TO CUT IT BACK.

5. YOU SHOULD EMPHASIZE THAT THE ADMINISTRATION CONTINUES TO BELIEVE THAT INDONESIA NEEDS AND DESERVES THE STRONG SUPPORT OF THE UNITED STATES AND OTHER IGGI MEMBERS. WE DO NOT BELIEVE, HOWEVER, IN LIGHT OF CONGRESSIONAL ATTITUDES TOWARD AID PROGRAM THAT WE CAN ASK FOR THE 90 MILLION DOLS NN AID LOAN FUNDS WHICH WOULD BE REQUIRED --

IN CONCERT WITH WELL OVER 100 MILLION DOLS IN PL 480 -- TO REACH THE ESTIMATED AID PLEDGE LEVELS. THE OVERWHELMINGLY

NEGATIVE VOTE ON IDA REPLENISHMENT AND THE CONGRESSIONAL COMMENTS RE OIL PRODUCING NATIONS MADE AT THAT TIME IS AN INDICATION OF OUR PROBLEM. NOT ONLY WOULD HIGH DL FIGURE BE AN IMMEDIATE TARGET FOR AID CRITICS, IT WOULD ALSO BRING INTO JEOPARDY MANY OTHER IMPORTANT AID PROGRAMS IN COUNTRIES WHICH DO NOT HAVE INDONESIA'S ADVANTAGES IN A TIME OF WORLD ENERGY SHORTAGES.

6. THUS, WE RELUCTANTLY CONCLUDE THAT OUR FY 74 DL LEVEL MUST NOW BE SET AT 68 MILLION DOLS AND OUR FY 75 DL REQUEST SET AT 60 MILLION DOLS, WITH THE PROJECTS CONCENTRATED IN THE AREAS OF HIGH CONGRESSIONAL INTEREST TO THE GREATEST POSSIBLE DEGREE. THE FY 75 PL 480 TITLE I LEVEL IN THE CONGRESSIONAL PRESENTATION WILL BE 116 MILLION DOLS, YIELDING A PROGRAM (EXCLUSIVE OF MAP AND GRANT ECONOMIC ASSISTANCE) OF 176 MILLION DOLS, STILL THE LARGEST U.S. DEVELOPMENT ASSISTANCE PROGRAM IN THE WORLD. (SEPTEL FOLLOWS ON DETAILS OF CP NUMBERS.)

7. YOU CAN ASSURE GOI THAT WE WILL NOT REPEAT NOT SEEK
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 047882

TO DRAMATIZE SITUATION OR IMPLY BY WORD OR ACTION THAT NEED FOR EXTERNAL ASSISTANCE IS RAPIDLY ENDING -- WE PLAN A CONTINUING ASSISTANCE RELATIONSHIP WITH INDONESIA AND WE WILL AVOID MAKING STATEMENTS IN INTERNATIONAL FORA PUBLICLY EMBARRASSING TO OR CAUSING DIFFICULTIES FOR THE GOI AT THIS TIME OF CHANGE IN INDONESIA'S NEED FOR CONGRESSIONAL ASSISTANCE.

8. THESE DEVELOPMENTS MAKE ALL THE MORE IMPORTANT THE NATURE OF THE GOI'S RESPONSE TO NEW SITUATION. YOU SHOULD EMPHASIZE OUR FEAR THAT THE IGGI MECHANISM, WHICH HAS BEEN EXTRAORDINARILY IMPORTANT TO AND SUCCESSFUL FOR THE INDONESIANS, COULD BE IN REAL DIFFICULTY IF OTHER DONORS FAIL TO SEE THE GOI TAKING AN ACTIVE AND CONSTRUCTIVE ROLE IN RESPONDING TO THE IMPROVED ECONOMIC

CONDITIONS. WE BELIEVE THE GOI WILL CONTINUE TO NEED THE IGGI FOR SOME YEARS, AND WE THINK THE IGGI COULD BE SERIOUSLY DAMAGED IF THE GOI WERE TO GO TO THE MAY MEETING WITH A STAND PAT POSITION. WE WISH TO DO WHATEVER WE CAN TO ASSURE THE CONTINUATION OF AN EFFECTIVE AND STRONG IGGI.

9. GOI STATEMENTS AT THE DECEMBER 1973 IGGI NOTED THAT NEED FOR CONCESSIONAL CAPITAL ASSISTANCE WOULD DIMINISH OVER PERIOD OF SECOND FIVE-YEAR PLAN; EFFECT OF NEW OIL PRICES WOULD APPEAR TO HASTEN THIS PROCESS, AND WE BELIEVE THAT GOI 74/75 REQUEST TO IGGI NEEDS RETHINKING WITH RESPECT TO BOTH TOTAL AMOUNT AND COMPOSITION. PROGRAM/FOOD ASSISTANCE REQUEST (300 MILLION DOLS) APPEARS

ESPECIALLY ANOMALOUS AND WE UNDERSTAND WILL NOT BE SUPPORTED BY IMF. IDEAL SHORT-TERM SOLUTION FROM OUR STANDPOINT WOULD BE FOR GOI TO REDUCE AID REQUEST BY THIS OR SOME SIMILAR AMOUNT TO POINT WHERE WE COULD MEET ONE-THIRD FORMULA WITH RESOURCES LIKELY TO BE AVAILABLE TO US (WHICH COULD OF COURSE BE LESS THAN CP REQUEST LEVELS). IF THIS IS NOT ATTRACTIVE TO GOI, THERE APPEAR TO BE TWO OTHER ALTERNATIVES:

A)
E E E E E E E

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, ECONOMIC ASSISTANCE, TODEP 251, BANK LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 MAR 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE047882
Document Source: CORE
Document Unique ID: 00
Drafter: ASIA/DP:ASHAKOW:EA/IMS:TJCHEAVNER
Enclosure: n/a
Executive Order: GS
Errors: I
Film Number: P740145-0481
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740352/aaaabwic.tel
Line Count: 189
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: JAKARTA 2885
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 23 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2002 by shawdg>; APPROVED <29 JAN 2003 by GolinoFR>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US AID TO INDONESIA
TAGS: EAID, ID, US
To: CINCPAC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005